United Nations E/2005/SR.22

Economic and Social Council

Provisional

20 July 2005

Original: English

Substantive session of 2005
Operational activities segment

Provisional summary record of the 22nd meeting
Held at Headquarters, New York, on Thursday, 11 July 2005, at 10 a.m.

President: Mr. Moncayo (Vice-President) ..... (Ecuador)

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05-41454 (E)

In the absence of the President, Mr. Moncayo (Ecuador), Vice-President, took the Chair.

The meeting was called to order at 10.20 a.m.

Operational activities of the United Nations for international development cooperation (A/60/83-E/2005/72)

Panel discussion on funding of United Nations development cooperation for the pursuit of the internationally agreed development goals, including those contained in the Millennium Declaration: alternative funding options and modalities for financing operational activities for development of the United Nations system

1. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs), Moderator, said that the timing for the panel was excellent, coming so closely after the General Assembly's High-level Dialogue on Financing for Development and anticipating the attention to be given to funding questions at the 2005 summit in September. He noted that, while development cooperation was not a new theme in the Council's debates, it was the first time that the Assembly had asked the United Nations to explore options not only to increase funding, but also to ensure its predictability, stability and reliability, so as to enable the system to help Member States to achieve the internationally agreed development goals. There was increasing awareness that, to reach those goals, new resources had to be mobilized and used efficiently.

2. Referring to official development assistance, he said that its level had recently risen and new mechanisms were being used to deliver it directly to developing countries, through budget support and swaps, while thematic global funds and recent additions to the development assistance window had brought a significant amount of new contributions. Moreover, new agreements on debt cancellation had not entailed a reduction in the overall funds available to developing countries.

3. The unique capacity of the United Nations system to provide multilateral, neutral and flexible support was, however, being challenged if not jeopardized by the very same new aid modalities. A re-orientation of the system's contribution at country level in order to optimize the new opportunities was therefore needed, and to that end United Nations organizations had to expand their core technical capacity, which in turn called for sufficient core resources.

4. The role of the global funds posed further challenges for the system in that their growth in the previous decade had been a factor in the shift away from core to non-core contributions, while the technical capacity of the system to carry out its implementation role again depended on adequate core funding.

5. Besides the question of increased core resources, two other essential ingredients for maintaining the system's capacity to help Member States deliver on the United Nations development agenda were good management and operational reform, in the interests of enhanced efficiency. He invited members of the panel to share their views on the challenges thus entailed in ensuring the credibility and effectiveness of the system's efforts to advance that agenda.

6. **Mr. Nyong'o** (Minister of Planning and National Development, Kenya) highlighted the key issues being addressed in the debate, which he likewise described as timely, in particular the multilateralism, structure, functioning and financing of United Nations development cooperation, ways of increasing coherence and coordination at country level, and sustainability of results.

7. Quoting from the Secretary-General's report (A/60/83-E/2005/72) on the importance of linking funding levels and programme activities with effective progress towards the development goals, he said that the system's financial base had to be strengthened, especially in regard to core funding, so as to make it steady, predictable and adequate for operational purposes.

8. He wished to address five questions in that context, namely, whether the United Nations needed funding, the circumstances under which that funding should be given, who should provide it, how it should be used and whether the United Nations could raise enough resources to meet the Millennium Development Goals.

9. The United Nations did indeed need funding, provided that it was stable, predictable and adequate long-term core funding, capable of ensuring a 10-year plan of activities. It was also important, however, to optimize resources, and that meant mobilizing technical capacity on both sides of the development

divide. The developing countries had a great deal to offer to the United Nations in terms of intellectual resources.

10. Second, the funding should be dependent on reform of the system, making it less bureaucratic and more innovative, capable of capitalizing on its comparative advantage of galvanizing technical expertise at the national level and mobilizing resources at the global level. It was sometimes wasteful and self-defeating to send so-called experts from Headquarters into the developing world, and in the case of Africa the United Nations could make effective use of Africans living abroad in order to garner expertise.

11. Third, core funding should come in good part from donor countries, but where member countries contributed in terms of intellectual capital, that should be monetized as part of their contribution to the United Nations and its agencies. The Organization should also help to galvanize such capacity in developing countries as part and parcel of capacity-building and cost reduction.

12. Fourth, the resources of the United Nations should not necessarily be channelled towards non-governmental organizations but should be used to build the capacity of Governments to work effectively, accountably and productively to eradicate poverty. That called for a results-based system.

13. Lastly, the United Nations needed to work hand in hand with those who provided official development assistance, particularly by universalizing the lessons drawn from its experience in determining the resources needed at grass-roots level to eradicate policy. That required intellectual leadership as well as capacity-building.

14. He concluded by stressing his country's deep commitment to the Organization and its belief that reforms of the United Nations system must go hand in hand with reforms at the country level.

15. **Mr. Osei** (Deputy Minister of Finance and Economic Planning, Ghana) concurred with the two previous speakers regarding the timeliness of the debate, which had to be situated within the wider context of the Monterrey Consensus on financing for development and the Millennium Development Goals.

16. The United Nations system was a key partner in Ghana's efforts to achieve those Goals, and rightly so, considering its political, legal, social and economic role as enshrined in the Charter.

17. The first question to be addressed was how the real funding requirements of the United Nations were to be defined. He advocated an approach at once holistic and flexible, entailing a match between administrative and programme costs, eschewing a separate budget for each category.

18. His second question turned around funding modalities and whether they needed to be merely strengthened or radically rethought. He pointed out that the traditional annual pledging conference held in November did not yield the best results, because few pledges were made and because those that were made were often not honoured. That modality therefore needed to be critically reviewed, as did the method of fund-raising through assessed contributions, which suffered from being a yearly exercise and from the failure of some Member States to pay up. A modality like the multi-year funding framework (MYFF) had much to recommend it as a sustainable funding strategy. By establishing a clear link between resource requirements and results, it enhanced effective planning and promoted accountability, even though it did not necessarily guarantee an adequate flow of resources, which depended on effective delivery of promised resources by Member States. The MYFF provided an answer to his third question, concerning the short- and long-term alternatives to existing funding modalities. It deserved to have its full potential realized so that it might serve as the central plank around which other financing arrangements could be built. Other innovative country-based approaches also had advantages, however, at least in the short term. They included cost-sharing arrangements between recipient country Governments and United Nations agencies, and public-private-United Nations system partnerships.

19. The problem lay not so much in current modalities as in the ways they were implemented by Member States. He therefore appealed to both developed and developing countries to deliver on the actions required of them. The former must continue to move forward on the necessary economic and social agendas, while the latter must contribute both morally and financially to the growth of developing countries and their efforts to reduce poverty. Without such joint action there could be no progress towards meeting the internationally agreed development goals.

20. **Mr. de La Sablière** (France) said there had still been no real decisions on the modalities for financing operational agencies and so United Nations funds, programmes and, to a less extent, specialized agencies continued to operate on the basis of financial mechanisms which were too unstable, as shown by the report of the Secretary-General (A/60/83–E/2005/72). The amount of effort that the agencies needed to devote to fund-raising, in terms of human and financial resources, gave rise to a series of difficulties. The demands of modern development and changes in official development assistance had serious consequences for United Nations development agencies, requiring the adoption of a more efficient approach. Recipient countries desired stable and predictable funding modalities to meet their development objectives, while donors relied increasingly on medium-term national development frameworks for the programming of corresponding financial assistance. The United Nations was unable to deal effectively with either requirement. It was also unclear whether the United Nations was benefiting from the increase in public aid. On the contrary, there was a tendency towards increasing the funds to development banks and strengthening bilateral assistance.

21. The United Nations system needed to redefine its instruments and intervention methodologies in order to find its place in the international development architecture, thereby ensuring the mobilization of donors to fund United Nations agencies and not only international financial institutions. The direct consequence of failing to do so could be the erosion of resources. The legitimacy and universality of the system would also not be preserved without rethinking intervention modalities concerning governance by donors. The issue of funding was of crucial importance in that exercise: the current fund-raising system resulted in the dispersion of mandated activities and in competition among agencies, which was a permanent obstacle to efficient coordination.

22. The funding structure for the specialized agencies was generally appropriate: administrative expenditures and normative activities were financed by assessed contributions, while operational activities were financed by voluntary contributions. Nevertheless, the appropriate level for assessed contributions remained an open question. A generalized zero growth policy should be avoided, however, and the merits of each agency should be analysed on a case-by-case basis.

23. With respect to the funds and programmes, distinguishing between administrative and programme expenditures would help to clarify the real allocation of resources and resolve the problem of cost recovery. Administrative costs should be covered either by the regular budget of the United Nations or through a specific system of assessed contributions.

24. The three main problems associated with activities on the ground were dispersion, unpredictability and inter-agency competition. It might therefore be useful to identify the strategic priorities of individual agencies and provide them with a more predictable funding mechanism.

25. The Economic and Social Council had an important role to play in analysing the changing role of the United Nations agencies, including their funding modalities. It could and should also ask the September summit meeting to provide a strong political impetus for reform of those agencies, which should include reform of their funding mechanisms.

26. **Mr. Hjelmåker** (Ambassador for HIV/AIDS, Sweden) said that the international system for funding development was in fact a collection of disjointed entities that often lacked coherence and sometimes even worked at cross purposes. Criticism of that system had led to a renewed impetus for sustained and meaningful reforms, which would require not only exceptional political will and leadership but also a long-term framework for strategic choices. Financing alone was insufficient for development and needed to be complemented by other key attributes such as predictability, responsiveness, accountability and flexibility. His Government had recently commissioned a report entitled "The Future of Development Financing: Challenges, Scenarios and Strategic Choices", which should be consulted for further details in that regard.

27. With regard to the HIV/AIDS pandemic, he welcomed the fact that the international community had shown that it was possible to take major steps in a timely fashion. The Global Fund to Fight AIDS, Tuberculosis and Malaria represented a promising attempt to move forward on development financing. Its activities were based on a demand-driven system from affected countries, and all partners were represented at the country level through a coordinating mechanism.

Projects were funded for five years but their continuance beyond two years was subject to a satisfactory performance review.

28. Given the need for more predictable and stable funding, the Fund's Board had recently decided to establish a voluntary replenishment mechanism, which would be replenished with over US$ 7 billion for the period from 2006 to 2007. The replenishment process also included the establishment by the Joint United Nations Programme on HIV/AIDS (UNAIDS) of a Global Task Team on Improving AIDS Coordination among Multilateral Institutions and International Donors. The Team's final report contained far-reaching recommendations in the following areas: empowering inclusive national leadership; alignment and harmonization; reform for a more effective multilateral response; and accountability and oversight. The report focused on the need for development partners to align international systems and for inclusiveness at the national level. The recommendations had been presented to the Board's recent meeting on the replenishment process in Rome and had been fully endorsed by the UNAIDS Programme Coordinating Board. The report's recommendations would also be considered by the governing boards of the 10 UNAIDS co-sponsors as well as by other relevant decision-making bodies. The final meeting of the replenishment process would be held in London in September 2005.

29. Action taken to combat AIDS had shown that it was also possible to agree on an effective governance structure, to take innovative steps on financing modalities and to move forward on radical reform proposals. He hoped that such achievements with respect to AIDS could be replicated in other parts of the development agenda. To transform political agreements into concrete actions and results on the ground the United Nations needed to be a relevant and unified system with clear rules and mandates, no gaps or overlaps and, in particular, sufficient funding.

30. **Mr. Rogerson** (Research Fellow, Overseas Development Institute (ODI)) said that the international development architecture had changed, and the United Nations development pillar would have to adapt to a crowded field in which there was more choice and complexity but also greater innovation. The United Nations had lost ground to banks and funds and its project-based approaches had become outmoded compared with private and non-governmental organization delivery alternatives. Meanwhile, official development assistance to developing countries was predicted to increase from US$ 60 billion to US$ 120 billion between 2006 and 2010.

31. While there was universal agreement on the principles of the United Nations, the key question was how to turn such principles as universal reach, political neutrality and a standard-setting capability into a competitive advantage. The question of who paid for what also needed to be addressed. Clarification of the Organization's role in development would provide a better understanding of global poverty, fragile States and the scaling-up of countries. It was also important to decide whether the United Nations Development Programme (UNDP) should act as a driving force or as a "niche programme" delivering only limited and specific services.

32. To resolve the discrepancy between "top-down" and "bottom-up" views, focal point issues should be identified and considered, such as the proliferation of funding for non-core programmes and the "boutique" approach in-country, whereby donors picked areas of interest without considering the integration of activities. Given the difficulty of finding a single legitimate and effective solution, the default option was simply to do nothing. Other funding options included a recalibration of core funding; funding the United Nations Development Assistance Framework (UNDAF) as a whole at the country level; creating a single scaling-up fund; and linking replenishment to the International Development Association (IDA) cycle. The action taken would ultimately depend not on a lack of techniques but on the presence of the necessary political will.

33. **Dr. Benn** (Global Fund to Fight Aids, Tuberculosis and Malaria) said that the Fund had been created to attract, manage and disperse resources through new public and private foundations that would make a sustainable and significant contribution to the reduction of infections, illness and death, thereby mitigating the impact of HIV/AIDS, tuberculosis and malaria on countries in need and contributing to poverty reduction as part of the Millennium Development Goals established by the United Nations. The Global Fund to Fight Aids, Tuberculosis and Malaria had been set up as an independent organization in Switzerland in 2001.

34. Although the Global Fund had been established with strong support from the United Nations, it was not

a United Nations agency. The Group of Eight also had played a very strong role in its creation and, in particular, its funding. Another important factor was the support from civil society, non-governmental organizations and communities affected by the disease, who had considerable influence over both local and international media. The Fund was now working in concert with several United Nations agencies, including the World Health Organization (WHO), UNAIDS, the United Nations Children's Fund (UNICEF) and, in particular, the United Nations Development Programme (UNDP). Pledges to date amounted to US$ 6.85 billion, and the Fund was already contributing 45 per cent of all international funding for malaria, 66 per cent for tuberculosis and 20 per cent for AIDS.

35. An important feature of the Fund was that it was driven by demand rather than supply. Five rounds of funding had been launched to date, often at the request of the countries concerned. Initially, resource mobilization was voluntary and ad hoc. Although the ad hoc system had worked well, the Board had shifted towards a voluntary replenishment mechanism in 2004. The fact that the Secretary-General of the United Nations had agreed to chair the replenishment of the Global Fund was a further indication of the tight link between the United Nations and the Fund.

36. It was now incumbent on the Fund to demonstrate to the donors that progress had been made. In terms of coverage, treatment, the number of people reached and access to prevention, the results were extremely encouraging. A progress report was available on the Fund's website, for those who were interested.

37. It was important to note that private corporations and foundations were represented on the Board. Many private corporations had made substantial financial contributions and had provided goods and services at the country level. Discussions were being held regarding ways to co-invest with private partners in the countries to maximize the effect of the joint programme.

38. The Fund recognized that non-governmental organizations constituted another important source of support. Indeed, non-governmental organizations sat on the Board and enjoyed full voting rights. Furthermore, the Fund held biennial partnership forums so that all stakeholders could provide input and guidance on the Fund's policy and strategy. Finally, organizations called "Friends of the Global Fund" had been set up in Tokyo, Washington and Paris. Although completely independent from the Fund, the "Friends" provided indispensable political support.

39. One of the key principles of the Global Fund was country ownership. The Fund did not have any presence in the countries concerned and did not have any influence over the proposals it received. Moreover, the Global Fund had been created as an innovative mechanism in development financing to respond to long-term development challenges. The financial resources provided by the Global Fund, together with those of the United Nations agencies and other organizations, would contribute to the achievement of Goal 6, as well as the other Millennium Development Goals.

40. In the long term, the Fund's success would be measured by its capacity to provide an adequate floor of resources and to achieve results in fighting the three diseases at the country level. Its primary challenge was to ensure the sustainability and predictability of its resource flow. Given the growing demand for funding, it was recognized that official development assistance (ODA) funds were insufficient and that alternative funding sources must be identified.

41. **Mr. Jenks** (United Nations Development Programme) said that there were some deep tensions in the current funding system, which would not be easily resolved. First, there was a need for simplification. Second, the multiplication of funds and the politics of "constituency funding" rendered the system extremely complicated. Third, there was the question of comparative advantage, which had been the subject of much rhetoric.

42. It was important to get away from theoretical issues and focus on "critical mass funding"; deciding what was needed to get the job done; measuring the results; and country performance. Finally, there was a practical tension between the ownership issue and the serious concerns in donor capitals regarding delivery and capacity.

43. Contrary to the views expressed by certain speakers, the United Nations should not feel pressured to compete for a share of donor resources. Indeed, it should welcome the strengthening of the multilateral system. What the United Nations needed was a critical mass of funding to accomplish the tasks the international community expected it to accomplish.

The fundamental issue was one of strategic positioning.

44. With regard to core versus non-core funding, a stronger core base, or critical mass of unallocated funding, was clearly required. However, it was erroneous to think that the United Nations was in a crisis situation and that it had been completely marginalized. In fact, the strengthening of the Bretton Woods institutions and bilateral aid agencies could only lead to a stronger United Nations.

45. With respect to UNDP in particular, the problems were of a more specific nature. Certain countries had contributed massively to the programme, in terms of both volume and per capita. A smaller group had contributed a large volume, but were not at the same level as the first group in per capita terms. A third group was not contributing either in volume or proportionate terms. Specific problems of that nature could not be solved by macro discussions.

46. Finally, there was no question that fundamental reform was required. However, it should not be assumed that the reforms would automatically solve the financial problems. Unfortunately, the discussion on reform was often a substitute for hard-headed practical discussions on particular funding situations.

47. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs) said that it was important not to forget that the convening power of the United Nations was the reason it had been chosen as the forum for the global conferences of the past 15 years. The development pillars were related to global trends. For example, the Millennium Development Goals had come out of the conferences and summits and had become the framework for development cooperation even for the multilateral development banks. Roles would become more clearly defined with the new philosophy guiding the International Development Association (IDA), which was becoming more dependent on individual contributions. How to guarantee IDA replenishment was another important issue.

48. The relative weight of the multilateral development banks and the United Nations depended on decisions by donor countries. During the 1950s and 1960s, the United Nations had performed many of those functions at the country level, since there were essentially no other organization of its type during that period, and it must have performed them well, since those decades were a period of rapid growth. The debate on the roles of institutions should not be allowed to become a self-fulfilling prophecy, however.

49. **Ms. Gordon** (Jamaica), speaking on behalf of the Group of 77 and China, agreed that there was a need to look at what underlay the modalities and that the commitment of the international community to fund development activities called for a certain level of trust.

50. Countries preferred to support funding through the international development banks because they sometimes sensed a lack of commitment from the United Nations. Its staff sometimes seemed more focused on keeping their jobs than delivering a programme, and executive boards did not always provide a careful account of the funds disbursed, creating a bitter atmosphere. The Secretariat was often caught in the middle with little room to manoeuvre and a tendency to micromanage, which did little to build trust. For example, if the reason for an evaluation was to cut funding, then the results could be skewed to preserve it rather than provide an accurate assessment. Lack of communication and balance between the central bureaucracy and the field was also a problem. The United Nations must be freed to perform its operational functions through an increase in core funding.

51. **Mr. Schultz** (United Kingdom), speaking on behalf of the European Union, said that the European Union was committed to providing more and better assistance aimed at the achievement of the Millennium Development Goals and was seeking a more adequate and stable method. Some interesting ideas had been presented in document E/2005/72, which deserved further consideration. He would be interested to hear the views of the panellists on whether the focus should be on modalities or on the way they were applied

52. **Mr. Osei** (Deputy Minister of Finance and Economic Planning, Ghana) said that there was tension between country ownership of the development process and the capacity to deliver. In the context of the New Partnership for Africa's Development (NEPAD), countries had demonstrated their capacity to deliver, but the issue of ownership had not been directly confronted.

53. **Mr. Nyong'o** (Minister of Economic Planning and National Development, Kenya) said that he was concerned at the scepticism expressed regarding

resource availability, although he agreed that a critical mass of funding was necessary to get the job done. There seemed to be a general concern that the United Nations was bypassed in favour of multilateral and bilateral financial institutions, but paragraph 12 of the report of the Secretary-General (E/2005/72) seemed very categorical.

54. **Mr. de La Sablière** (France) said that it was important to remember that the international financial institutions were following the development agenda that had been set at the United Nations through the major international conferences and summits and the Millennium Development Goals. Awareness of the United Nations as a solid pillar of development needed to be internalized. The September summit would provide an important opportunity to affirm the political will to follow the development agenda at the highest political levels. There was no doubt, however, that the rules of the game had changed and that it would be necessary to adapt to the new situation.

55. **Mr. Hjelmåker** (Sweden) said that there was often a gap between the global and country-level perception of a problem, but it was important to remember that implementation took place at the country level; it was there that words became deeds. The recently formed Global Task Team, convened by the UNAIDS secretariat, was an example of global coordination that would require coherence by Member States. Political will was needed to allow modalities to evolve.

56. **Mr. Rogerson** (Research Fellow, International Economic Development Group) said that re-labelling a problem would not solve it. He agreed with the representative of Jamaica that the issue of trust and the dynamics at the country level was a fundamental problem that must be addressed.

57. **Dr. Benn** (Global Fund to Fight AIDS, Tuberculosis and Malaria), using the example of the Global Fund, said that its level of resources had risen, but so had the burden for its partners in the United Nations system. At the final replenishment for the Fund, the resource needs of its United Nations system partners would be presented. The modalities for funding were in place, but they must be utilized.

58. **Mr. Jenks** (United Nations Development Programme (UNDP)) said that his comments, which might have sounded sceptical, were meant rather to address strategic issues of how funding was implemented. For example, with the expansion of budget support, a disproportionate amount of funding went to that modality, with relatively little going to the United Nations system. However, the United Nations had an important role to play in helping Governments to manage those budgets, which was important in terms of partnerships with national authorities. The United Nations should measure itself by its partnerships and their results.

59. He agreed with the emphasis on political will at the national level. Structural problems in donor countries must be faced, as the ministries responsible for allocating development assistance varied from country to country and in their views on how it should be carried out. It was important to have the conviction that the United Nations system had something unique to offer.

The meeting rose at 1.05 p.m.